

REGION 7

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I. BUSINESS AND MARKETING CONDITIONSCambridge Full Flavor

Retail promotions utilized during August sales cycle helped continue the successful introduction of this brand extension. The \$.25 off per pack promotion in the select market (Sacramento) moved very fast at retail. Retailers expressed the fact that the \$.25 off really moved product, as compared to the \$.10 off on such brands as Falcon and Magna, which created very little consumer interest. Pricing the product at retail continues to be key for the success of Cambridge.

The 2 for 1's wrapped by S/R's in the non-select markets were very successful. This was especially true in the San Francisco market, which is under-indexed in the generic category. Retailers were very pleased with this promotion.

We still have yet to close distribution gaps in several of our supermarket chains:

- . Safeway (carries Doral full flavor)
- . Lucky (doesn't carry Doral full flavor)
- . Raley's (doesn't carry Doral full flavor)

The brand has been represented twice to all of these chains. RJR enjoys an advantage in Safeway solely as a result of their fixturing posture.

The September sales cycle has witnessed a loss of sales momentum for Cambridge brand family, especially the full flavor. Coupons are once again unavailable.

Virginia Slims Ultra Lights

About 1,085 cases were shipped to wholesale during August. This compares very favorably with the monthly average shipment of 385 cases during the previous six months.

Retail promotions during the September sales cycle have helped build distribution levels. The reduced quantities of 2 for 1's during the first four weeks is an excellent idea. This prudent scheduling has allowed for a higher concentration on gaining distribution.

A major distribution gap in Lucky stores was filled during this period. Warehouse Markets is the only chain still pending for Virginia Slims Ultra Lights.

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The slight packaging change (adding a white stripe) has enhanced the brand. The cartons are easier to identify on a fixture for consumers.

Benson & Hedges Light Box

Wholesaler acceptance of these two packings has been achieved at the 100% level.

Chain acceptance has been slower than anticipated. Most resistance has been simply due to the fact that this is our sixth new packing in 90 days, and that the industry has attempted to serve up as many as 15 new packings during the same period of time. By the retail introduction date, we anticipate a very high chain acceptance. Lucky stores is the only one we expect to have to represent.

Third Quarter Inventory Maintenance Program

Area Managers and SAM's have confirmed that full orders have been placed by the top 25 direct accounts in the section. These customers account for approximately 75% of the unit sales in the section. Although virtually 95% of all direct customers were contracted concerning this IMP, a special effort was made with these 25 customers.

II. COMPETITIVE DEVELOPMENT

American

Sales force is promoting Malibu's exclusively and is getting good penetration at the retail level. The Malibu displays are two levels, with the top portion holding single packs with \$.30 coupons attached and the lower level holding cartons with \$3.00 off coupons attached. Product has also been noted on carton racks with the same \$3.00 off coupons attached. Sales have been very slow to date, with no affect noticed in PM sales or merchandising methods.

In Safeway - Salinas, CA, Malibu is being featured in a permanent floor display. There is a \$50.00 bonus for placement and a \$40.00 per month payment. American is promoting Pall Mall Filters through the use of a "Blimp" around the Bay Area. The blimp has been spotted by several members of our sales force, but has not helped increase an additional sales of the brand.

Brown and Williamson

B&W's primary emphasis continues to be Capri. Comments and

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audits indicate the initial response from both retailers and consumers was very good; however, it does appear that much of the initial trial was stimulated by the novelty of the cigarette. Their two-carton plastic displays are securing lengthy counter positions by giving the retailers \$5.00 per month until the end of the year by not requiring self-service locations or large inventory amounts.

B&W is also featuring Capri in a two pack with lighter, which pays the same \$4.00 as the 2 for 1. Also featured in selected areas is the two-pen ultra slim marker set with a two-pack purchase, with \$4.00 payment to retail.

B&W has hired samplers to sample consumers with a 20-pack of Capri with a coupon for additional \$2.00 savings and another free pack. The samplers were at Safeway, K-Mart, and Pac N Save.

Lorillard

Lorillard is offering a \$2.00 savings on Newport, any style, on carton merchandise. Newport and True also are being offered on a "buy 2, get a lighter" display. These are 20-unit displays, paying retailers \$2.00. Sales are very good on Newport and slow on True displays.

Lorillard is testing "Harley Davidsons" in Terre Haute, Indiana. The image of Harley Davidson is going after the Marlboro market, in creating an image for bikers with a brand slogan "take a new road". If the test is successful, they will invest 100 million dollars to market Harley's nationally.

Liggett and Myers

Nothing new to report.

R. J. Reynolds

Winston Kings and 100's are being promoted this month with a "buy two packs and get a 49er football cold cup" 40-unit display. The display has a \$3.00 payment and is selling out in about one week.

The RJR permanent incentive rack is offering Camel Filter and Filter Lights in a "buy 3, get 3 free" promotion. This display is selling out in about 5 days. Quantities vary, depending on the size of the wire rack.

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RJR will be placing 10 electronic security racks in Lucky's as soon as they are available. RJR wants to see if the racks will make a difference in stores that have a pilferage problem.

"Magna" is being tested in Nevada and had been selling as a generic-priced brand. As of October, 1987, they will be sold as a full-priced product. There is no explanation for this change.

III. TRADE CLASSES

Wholesalers

Albee and Buck - Eureka, CA

This account has accepted Philip Morris' FVB, and has signed contracts with AM Don Cloney. This account's Cambridge sales are up 64.9% year-to-date. This is a very good sign, as this account is a very strong generic market.

De Martini Wholesale - San Francisco, CA

This account has informed us that it is up for sale and is looking for a buyer.

Geary Wholesale - Hayward, CA

This account has informed us that it is up for sale and is also looking for a buyer.

Supermarkets

Lucky's - San Leandro, CA 159 stores

Buyer Dave Ebert has informed us that Lucky's operations department is making \$20,000. available to the warehouse to purchase racking to accommodate an additional 28 brands of cigarettes. This racking should be in place by the end of the 4th Quarter. SAM John Zank is preparing a customer satisfaction report to insure that our brands are well represented.

Lucky's recently accepted Merit Ultra Light 100 regulars. 35 cases were ordered and 12 cartons were shipped to each store. The new item number has already been sent to the field.

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Raley's

Raley's new store in Vallejo is now open and and utilizing our large 2,400 spinners. Raley's recently closed one of the older stores in downtown Sacramento in conjunction with their policy of remodeling or building super stores when possible.

ConvenienceCircle K - Sacramento, CA 141 stores

Circle K is beginning to implement our carton fixtures and currently has them installed in 11 stores. They have more fixtures on order and will complete the implementations when they arrive.

Customer Company - Benicia, CA 125 stores

The three-pack/free soft drink promotion is off and running. Customer Company management will provide us with "before and after" statistics to assist in the evaluation of the program. It appears promising that we will improve our M-4 position very soon. Customer Company has not accepted Malibu, but has accepted West. Floor displays can be found in most stores featuring packs at \$.70 each and cartons for \$7.00.

GasBeacon Oil - Hanford, CA 109 stores

Les Martin informed us that he was testing RJR's flex racks in three Plan A stores. RJR has dismantled the Philip Morris signage and security shields and installed their own flex units. RJR is paying \$125. per month for the top two shelves. RJR has not paid for any shelf space since Beacon began displaying cartons in a self-service mode. RJR's flex units present a good appearance and are receiving favorable reviews from local Beacon. This action could represent the eventual replacement of PM C/I's by RJR. Beacon realizes a \$125. per month increase by converting to the RJR fixture. If all stores converted, Beacon could realize a significant merchandising profit increase. Les indicated that he was considering this conversion. He was advised that if he did so, PM's visibility would diminish to almost nil. Les indicated that if PM lost all carton fixtures, he would consider replacing the RJR overhead package fixtures with PM units.

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IV. SSM KEY ACCOUNT CONTACTSWarehouse Markets - Sparks, NV Ron Trilotti

Accompanied AM Frank Brown and FVB Manager Jerry Booher on a presentation of All American to this supermarket chain. Ron seemed surprised at the depth of our program, and wants to analyze the entire program. He will compare it to the current Liggett offer and contact Jerry in about two weeks.

Patton Wholesale - Sparks, NV Bob Griffith

Discussed overall business trends with Bob, especially the progress of the value generic category. Over 50% of this customer's volume is being supplied to the Indian outlets in Nevada. Bob stated that approximately 36% of these outlets' volumes are value/generic products. This account represents a major opportunity for the further promotion of this category. To this end, I have discussed our selling strategy with DRS Kuhlman. We anticipate cultivation of this account during the next 90 days.

Prestige Stores, Inc. Cerritos, CA Mike Askwith

Accompanied J. B. Baker on a call to present our carton merchandising proposals. This chain owns approximately 300 Arco AM/PM mini marts in seven western states. Mike was not interested in our program at this time. Barry Baker intends to follow up with him concerning counter displays.

Price Club So. San Francisco/San Jose, CA Lynda Santos

Discussed overall business trends and toured both of these new facilities. AM Don Cloney and I hosted Mr. Peter Collieran, Marketing Director of Australian Foodlands Limited. This mutual cooperation call was conducted at the request of Stewart Mallinson of PM Australia.

Naser Distributing San Jose, CA John Naser

Discussed overall business trends as well as John's plans to establish four warehouses in Hawaii. He has made arrangements with four local sub-jobbers to go into partnership for direct shipments beginning January 1, 1988.

Customer Company Benicia, CA John Roscoe, Ned Roscoe,
Sally Roscoe, Collen McIver

Met with this important customer on several occasions concerning various promotional and business development topics:

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1. With Mssrs. Rich Medwar and Paul Bernard to discuss the special three-pack/soft drink promotion. After the first four weeks, it is experiencing limited success.
2. With FVB Manager Jerry Booher to formally present the revised manufacturing agreement for their F&L brand.
3. With SAM John Zank to present merchandising proposals to close row gaps. We anticipate gaining about 4,500 rows as a result of this proposal.

Lucky Stores San Leandro Dave Ebert

Accompanied SAM Zank to discuss Third Quarter Inventory Maintenance Program. Dave appreciated John's quick follow-up and as a result, placed the maximum order eligible under the program.

IV-A. S.A.M. CONTACTS

James D. Canley 71-41-00

Safeway-Northern California 233 stores Fremont, CA

During this reporting period, I met with the cigarette buyer, Dave Cabral, on two occasions. On August 25th, my purpose was to present B&H Lights Box regular and menthol. Although Dave told me he would accept the product, he demonstrated some frustration. He stated his boss, Chuck Aldridge, does not want to accept any new cigarette packings because he does not believe it is going to increase Safeway's sales. Chuck's belief is that new packings cannibalize existing packings of a category that is declining. Additionally, although their sales with PM is up, overall the category is down in Safeway stores.

On September 22nd, I met with Dave again to review our IMP and provide him with a suggested order. Dave indicated his company's attitude towards the category would greatly improve if we were to provide them with more programs such as the IMP.

7-Eleven Central Pacific 500 stores Pleasanton, CA

During this reporting period, I contacted 7-Eleven on numerous occasions. Some of our reasons for meeting were to present our overhead pack fixtures, review our invoicing at store level, meetings with district personnel, franchise owners and district managers.

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Some of the actions taken were presentations on our fixtures. Rigo Bolanos indicated he also had to look at RJR's fixture per instructions from his division manager, Jerry Hooks; however, he strongly favored our fixturing because of our support in the past and our working relationship.

We also determined our store level invoicing program is not working efficiently at this time. Our people must begin leaving invoices in all stores and his field reps need to instruct store managers what to do with the invoices upon receipt. A letter has been sent to our Sales Reps emphasizing the importance of this procedure.

During the Southland District Meeting, I presented our counter and carton merchandising programs. All of the franchisees were very pleased with what we had to offer, but their complaint was they don't have the space. With the numerous amount of programs Southland is asking them to participate in, they have to draw the line somewhere.

Melvin Sosnick Santa Clara, CA

During this reporting period, I met with Art Shayowitz, the buyer for Melvin Sosnick, to introduce B&H Lights Box regular and menthol. At that time, we also tried to determine what he and I can do to move his allocation to retail. We decided a sales contest or an incentive to his sales personnel to move his allocation would do the job. Art agreed to pass on part of his introductory allowance to his Sales Reps. They will receive \$.20 per carton. We also will offer them one of the B&H trade gifts - a camera - for reaching their quota in a specified time.

Sosnick has 20 Sales Reps who must sell 200 cartons by October 16th. This will put them 18 cases over and above their allocation to qualify them for the ADA. In addition, our Sales Reps are pre-booking product through Sosnick, which will help tremendously with their ADA.

Fleming Companies

During September, I met with Buyer Marc Lee on three occasions to gain distribution on B&H Lights Box. Marc accepted the product in all warehouses; however, I had to call on him a few more times to insure the product was properly set up and line numbers were issued. Due to vacations, Marc was extremely busy with other categories, so he let me help get line numbers issued for both packings. Product is to be delivered to all warehouses on 9/28/87.

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John F. Zank - 71-42-00Lucky Stores San Leandro, CA 159 stores

Buyer Dave Ebert has informed me that Lucky's operations department has made \$20,000. available to the warehouse to purchase racking to accommodate an additional 28 brands of cigarettes. However, he said that these things take time and he does not anticipate that the new racking will be set up and complete much before the beginning of the year. I will prepare an additional list regarding customer satisfaction levels to insure that our brands are well represented.

Lucky's will be placing ten RJR electronic security racks in their stores as soon as RJR has them available. They want to see if the racks will make a difference in stores that have a pilferage problem.

Lucky's recently accepted Merit Ultra Light 100 regulars. 35 cases were ordered, and 12 cartons were shipped to each store. The new item number has already been sent to the field.

Raley's Sacramento, CA 48 Stores

Raley's new store in Vallejo is now open and we have our large 2400 spinners installed. Raley's recently closed one of its older stores in downtown Sacramento, in conjunction with their policy of remodeling or building super stores when possible. New "Rainbow", generics supplied by Fleming, can now be found in all stores on both the carton fixture merchandised in the L&M space, and on small VA-type displays. I do not know if there is a display payment as well. Initial sales have been slow.

Save Mart Modesto, CA 54 stores

Save Mart will be opening two more stores in Modesto within the next six months. I have requested to install the low profile spinners in these stores, if for no other reason than a test of our spinners, since they installed the RJR low profile spinners in their last new store. Buyer Arvin Shock said that he would consider it. I am awaiting information from NYO regarding our package sale market share in supermarkets to make a follow-up spinner presentation.

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Circle K Sacramento, CA 141 Stores

Circle K is beginning to implement our carton fixturing and currently has them installed in eleven stores. They have more fixtures on order and will complete the implementations when they arrive. I am having a logistical problem placing our overhead merchandisers at this point because all of the new stores are being built to the exact measurements of RJR racks only. I was told that I would have to work out this detail with Circle K engineers. I will discuss this with NYO before making any requests.

Customer Company Benicia, CA 125 stores

As discussed previously, the three-pack/free soft drink promotion is off and running. Customer Company management will provide us with before and after statistics to assist in the evaluation of the program. It appears promising that we will improve our M-4 position very soon. Customer Company has not accepted Malibu at this point, but has accepted West. Floor displays can be found in most stores featuring packs at \$.70 each and cartons for \$7.00.

Regal Gas

This chain is continuing with its reorganization. Subsequently, it has been difficult to get decisions made and to make appointments. However, the prospects for fixturing in the high volume stores appear promising. I will discuss a new fixture and Plan A program with the Vice President of Merchandising on October 6th.

Capital Cigar

The new buying hours for the Sales Reps appear to be working quite well. I have had no complaints from either side. The Capital Cigar sales manager was reluctant to pass on the introductory allowance on Va Slims Ultra Lights to his sales people, since it is only \$.46 per carton. I will work with him more closely on the B&H Lights Box introduction.

Modesto Tobacco and Candy

MTC did not pick up the AM/PM business as previously reported. At the last minute, AM/PM executives requested that the Northern California division remain with Coremark. MTC now has a marketing director to assist in planning marketing strategy and sales promotions. While I have not yet met the individual, it is my understanding that he was formerly with AM/PM in Southern California and also with Coremark.

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McLane - Pacific

McLane's orders for Va Slims Ultra Lights totaled 131 cases - more than double their allocation - allowing them to take full advantage of the ADA program that was available. I am sure that part of this was due to the fact that they were passing on part of the allocation allowances to 7-Eleven buyers. They will be doing the same with the B&H Lights Box. I anticipate equally successful results.

Longs Drugs

Nothing to report this period.

V. MERCHANDISING PROGRAMSCarton Merchandising Program

Plan A penetration exceeds 92% of all eligible accounts. We continue to improve row gains in both Category I and II. We are currently contracted on 88.0 rows in Category I and 71 rows at Category II. PM carton fixtures have been increased from 661 units at retail to 701 fixtures at a 6% increase since last reporting period.

Marlboro Sports Gear A-1

Participation in this promotion has reached 81% at retail with additional units still being placed. Vacant territories have kept utilization lower than anticipated at this time. This promotion, from a retail standpoint, appears to be highly successful where placed, as displays have been selling out in a three to four-day period.

AV/AG

We have increased our AV/AG program by 6.3% over last period, with 828 unit currently at retail.

Merit Seacoaster Display A-1 (Food and Liquor only)

This display was set up by Food and Liquor store managers and is selling steadily. Sellouts are taking approximately 14 days. Managers were very cooperative in the territories and gave the displays prominent visible floor space.

Pack Merchandising

Plan B/M pack merchandising continues to be very strong with 96.4% of all units placed at our higher category of BM 3 and

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B/M 4. We are penetrating 44% of all pack selling outlets. If all units placed, 53.5% are signed to the primary position at retail.

BV/BG

We placed 145 additional BV/BG's during the August cycle - a 55% increase over the July cycle.

VI. SECTION ACTIVITIES

B&H California Defense

Certain elements of this program were quite successful, while logistics/supply problems limited its total success. The overall objectives and rationale were very well stated by Region Trainer Dowell in a pre-program meeting. Sales Reps, DM's, RM's and Supervisors did a very good job of pre-planning the account coverage. Sales Reps utilized 100% of the 2 for 1 displays in the thirty targeted accounts per territory. Future programs of this type should utilize larger than 20-unit displays. These sell out in a matter of hours in high volume outlets. Section 71 personnel utilized a planning/implementation matrix (example attached). This matrix greatly enhanced the success of the account coverage. RM's knew where they had to go and what they had to do as a result of this matrix.

The comments section of the matrix was used by the Sales Rep to obtain the store manager or owner's authorization signature. This signature prevented time wasting "call backs" by the RM's.

Due to supply/logistics problems, we were unable to create POS visibility for B&H. We received no temporary or permanent POS items during the program.

100% of the displays shipped were utilized during the program.

24th Street Fair

This annual event conducted in San Francisco once again provided excellent exposure for Marlboro. The Hispanic community of San Francisco turned out in big numbers for this event. The use of colors for the scratch-off cards proved to be very beneficial. All materials were received three days prior to the event. Next year, we must have sooner contact with the event organizers, so as to secure a different location for our booth.

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Customer Company Soft Drink Promotion

This three-pack display is designed to generate extra unit sales in the 125 Food and Liquor stores. Audits indicate that consumers are indeed buying the three-pack deals, but lack interest in the free soft drink and cup. Further follow-up will be reported.

VII. SALES SERVICESCustomer Services - Richmond, VA

Bill Pearce and his group did a very good job in sending out the Third Quarter IMP materials. The allocation sheets were delivered to most accounts the day after the Mailagram.

Systems

We continue to experience some programming problems in the planning desk. MPA Kendall continues to work closely with the appropriate personnel to correct these problems.

VIII. SALES DEVELOPMENT

The trade class fact sheet information brochure is in need of updating. Current data is 2 to 3 years old.

IX. MEDIA DEVELOPMENTS

We continue to experience resistance from supermarket chains in Northern California to the upcoming in-store sampling program conducted by ACT-Media.

American Tobacco has been utilizing the services of Airship Industries (Dana Kahn, V.P., 650 5th Avenue, New York, NY. 212/262-7230) to advertise Pall Mall filters on the side of a blimp. This activity has been seen in the San Francisco Bay Area for the last three weeks.

X. MEETINGS / ASSOCIATIONS

Nothing to report this period.

XI. SSM MISCELLANEOUS COMMENTS

To facilitate communications and foster a better business building environment, we would appreciate two things:

1. Being advised of all direct contact by NY head-quarters personnel with customers within the Section.
2. Verbal, or written feedback from NY headquarter personnel after they have worked with any member of the Section sales force.

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I. MARKETING CONDITIONSPM BrandsVirginia Slims Ultra Lights and B&H Lights Box

Distribution status during this period for accounts not accepting since last report is as follows:

| <u>Account Name</u> | <u>V/S U.L.</u> | <u>B&H Lts. Box</u> |
|---------------------|-----------------|-------------------------|
| Albertsons | *Accepted | *Accepted |
| A-1 Wholesale | Accepted | Pending |
| Al-Sal Oil | Accepted | Pending |
| Hughes Markets | Accepted | *Accepted |
| Williams Bros. | Accepted | Pending |
| Clark Drug | Accepted | Pending |
| Oasis Oil | Accepted | Pending |
| Pantry Markets | Accepted | Pending |
| Gelsons | Pending | Pending |
| USA Petroleum | Pending | Pending |
| Mobil Oil | Pending | Pending |
| Texaco | Pending | Pending |
| Longs Drug, L.A. | Pending | Pending |
| Lucky Stores | *Accepted | Pending |
| Mayfair Markets | Accepted | *Accepted |
| Ralphs Grocery | Pending | Pending |
| Stop'N Go | Pending | Pending |
| Sav-On/OSCO | Accepted | Pending |
| Thrifty Drug | *Accepted | Pending |
| ARCO | Pending | Pending |
| Vons Grocery | Accepted | Pending |
| Thrifty Gas & Oil | Accepted | Pending |
| World Oil | Accepted | Pending |

*Change in status since last period.

Division Managers are reporting better results in the pre-booking of Virginia Slims Ultra Lights and B&H Lights Box than we experienced with Cambridge. Two factors helping this situation:

- 1) We worked out problems with Core-Mark/Glaser branches had in processing pre-booking orders.
- 2) Virginia Slims and B&H were more readily accepted due to the products' image.

Virginia Slims 2/1 were accepted by the trade with good movement from our displays. Placing 2/1's in our permanent display units has also helped sales with good visibility.

Specialty Brand - Monterey

Our entire allocation was ordered into two distributors and the brand is presently being worked at retail.

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II. COMPETITIVE ACTIVITY

American

Sales force concentrating efforts on the introduction of Malibu. Promotional offers include 2/1's and \$3.00 carton coupon. Distribution at chain level is minimal. Alpha Beta, Mayfair, Sav-On/OSCO and Vons are the only accounts reporting distribution at this time. Fair movement of 2/1's at retail noted. Carton sales with \$3.00 coupon slow at this time.

Brown & Williamson

We are receiving mixed reports on the sales of Capri. In some areas movement is slowing down, in other areas sales are good. No geographical pattern can be established at this time. Where product is being promoted, i.e., 2/1's, in-store distribution of 2/1 and carton coupons by demos, movement has been good. In Hawaii, Capri Menthol sales reportedly doing very good. A number of present B&H and Virginia Slims Menthol smokers have been found to be trying Capri.

Liggett & Myers

N/A

P. Lorillard

N/A

R. J. Reynolds

Subject company continues to promote Camels with B3G3F offer. Excellent consumer response reported. From our findings, it is not unusual to see some participating stores with 30 to 120 cartons of B3G3F product being sold in. Winston brand is offering a N.F.L. lighter (L.A. Rams or Raiders graphics) with 2-pack purchase. Consumer response has been very good. In another promotion, Winston is offering an "insulated jacket" (for beverage cans) free with the purchase of 3 packs. Consumer response has been slow.

III. TRADE CLASSES

Distributors

Core-Mark/Glaser headquarters in Hollywood will be closed down in the near future. Dean Parker will be reassigned to Corona as their branch manager. Commodity buyer Ron Kentish will be relocated to Sacramento, in the same capacity.

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Supermarkets

It has been reported that Lucky Stores will probably reopen some of the Gemcos (under another name) with a format to compete with Ralphs Giants and Vons Pavillions.

A recent consumer survey has found that Lucky Stores has the lowest all-around prices versus other major competitors. Alpha Beta was second. At the end of the list are Vons, Ralphs and in last place, Safeway. This survey received a lot of media coverage. One would expect that Lucky and Alpha Beta customer count will increase sharply.

Safeway is in the process of remodeling a number of stores to include specialty departments, i.e., deli's, flowers, cheeses, etc. It looks like they are tailoring their stores to meet community needs.

Drug

While Sav-On/OSCO has indicated to our SAM that a \$500 slotting fee is required on all new items, Virginia Slims Ultra Lights was finally accepted without a fee. Our local Sav-On/OSCO buyer indicated that American and B&W paid subject fee for Capri and Malibu. No proof to this effect was seen. However, our SAM in Illinois stated that a fee is not required by their national headquarters.

Liquor

Rods Liquor, 4 store chain, accepted RJR's overheads. Account was paid \$150 as an installation cost (ceiling mounted). However, RJR personnel installed the fixtures.

IV. SSM KEY ACCOUNT CONTACTS

ARCO, Los Angeles - Robert Windt, Mgr, New Product Development

A/M Ron Marcin and myself presented a business review. We discussed our merchandising program and how ARCO is not maximizing the total profits available in the cigarette category. Bob is very interested in pursuing some of our ideas, such as category reviews for district supervisors. Follow-up meetings will be conducted by the SAM.

ARCO, Cerritos, CA - Mike Askwith, Supervisor for Corp. Stores

SAM Barbara Romoser and I met with Mike to discuss the PM fixtures that were placed in Northern California. These fixtures were placed in franchised stores. Mike feels we could pay more money for chain stores. He also feels we don't pay enough for our counter displays. For us to place a counter display the

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minimum dollars required is \$55.00 before they will consider our program.

They are interested in monthly promotions (specifically B1G1F), however, they want a program that would run for a month, not a one-time placement.

I believe we can work with the account, but it will take time to develop a rapport and mend a few fences.

Immediate objective, authorization for M-4 counter display.

Safeway, Los Angeles, CA - 183 stores - Don Gates, John Rogers,
Tom Small, Bob Campbell,
Gus Waldusky, Kent

Carlston

Ron Anis, Mike Pfiel, Bob Rabb, Jim Kuhlman, Barbara Romoser and myself. The self service test was presented to this group by Roy Anis. The results were well received by Don Gates and his group. Follow up will focus on several areas.

- 1) Out of Stock study will be conducted. Barry O'Brien of Sales Planning has been contacted by Jim Kuhlman.
- 2) Recommendation for free-standing pack merchandising as well as belt-line.
- 3) 46 stores originally non-self service will be converted to self service, however, this remains to be seen.
- 4) Coexistence of carton fixtures. Bob Campbell, Director of Store Operations, indicated he'll re-examine available floor space for either 3' or 4' sections depending on store volume.

This meeting definitely raised some interesting facts concerning Safeway cigarette merchandising. If it were not for this account's desperate cash flow needs, because of last year's buy out and RJR's position on merchandising payments on our fixture, they would be using our System 2000.

Thrifty Gas and Oil, C. L. Sperl

SAM Barbara Romoser and myself presented B&H Lights Box, also discussed carton merchandising for 50 Sunshine Stores. Barbara will follow up with proposals for both System 2000 and counter displays.

Albertsons

SAM Bern Nilson and myself met with the new V.P. Southern Division, Dick Heroux. We discussed merchandising decisions which are still made at the Boise headquarters. I plan to

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develop a presentation on row gap analysis and DPP to present to Dick. Hopefully we can gain his support to present opportunities to headquarters which will improve inventory levels in the Los Angeles area.

SAM ACCOUNT CONTACTS

72-41-00

Alpha Beta

Met with V.P. Merchandising Don Bates to discuss his new position and role regarding cigarette merchandising. Currently our relationship with Alpha Beta is very good and they are pleased with the System 2000.

Follow-up presentation for B&H Lights 100's Box. Product was accepted. Also contacted Lucy Moyer in Accounting to present new invoicing procedures I developed for Alpha Beta. This invoicing procedure should simplify billings to all tobacco companies.

Albertsons

Presented Virginia Slims Ultra Lights and B&H Lights Box. The decision to carry both items is still pending. The buying committee has been postponed until the week of 9/14/87.

Luckys

Presented Virginia Slims Ultra Lights and B&H Lights Box. Both brands have been accepted, all packings.

7/Eleven

Follow-up presentation for Virginia Slims Ultra Lights 100's 2/1 display. Display program was accepted.

Mayfair Markets

Presented Marlboro A-1 Sports Bag promotion. The 120 carton display was authorized for all stores.

72-42-00

Boys Markets

Authorization for all new packings of Virginia Slims Ultra Lights and B&H Lights Box obtained. Dick Gordon just slow on necessary paperwork to us and his people.

Installation of Foods Company carton fixtures targeted for 10/1.

Certified Grocers

Picked up the Liquor Barn account. Accounting department taking

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discounts on orders not available to them.

Thrifty Drug

Authorized both packings of Virginia Slims Ultra Lights, however, the Players Light 25's king and 100's were discontinued. AV pending.

Thrifty Gas & Oil

B&H Lights Box will be authorized shortly. Interested in self-service carton fixture. Would like to see all programs PM has to offer. Seriously considering dropping the B&W generics in favor of our Famous Value Brand. This would also mean distribution of our Cambridge.

V. MERCHANDISING PROGRAMS

A. Carton Merchandising Programs

Plan A

Safeway increased our Plan A by 714 rows in 79 stores effective 9/87. The current weighted average in all 137 self-service stores is 96 rows.

Vendome Wine and Spirits (4 stores) signed our new Plan A, 72 rows. The following accounts have re-signed to our new Plan A:

| | | |
|----------------------|---|---------|
| Cal-Target | - | 93 rows |
| P&M Service Stations | - | 93 rows |

Boys Markets has set 10/1 as the target date to place the last eight carton fixtures in the newly acquired Food Company stores.

The Sales Force continue to make aggressive presentations to their independent accounts to close row gaps. The placements of supplemental hardware (AV) fixture is allowing us great strides.

Plan A-1

Safeway signed a contract for 137 self-service stores, however, the acceptance of all promotions must be cleared with each store manager.

B. Pack/Counter Displays

Tinder Box, 78 stores

Has authorized our S/R's to present our B units to the franchise stores only. These would be signed at local level.

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7/Eleven

To improve M-4 placement, Retail Merchandisers are accompanying 7/Eleven Area Managers in placing counter displays. This approach has been effective in gaining new placements and enforcing compliance.

ARCO, 250 stores

This account would be willing to place our M-4 unit in all AM/PM's, however, he is looking for a minimum of \$55.00 per month placement.

They are very receptive to all BlG1F promotions that will run for a month at a time, however, they are not sold on the value of the buy two packs get an incentive item. Currently 40% of their sales are in ARCO's special 3-pack promotion for \$3.49.

Plan R

Currently 146 Vons stores participate in this program.

Alpha Beta currently has 70 stores versus 62 for last month.

C. Vending Programs

Managers are re-presenting Maxi Credit program to vendors during the 3rd and 4th quarter of this year.

D. PM FixturesSystem 2000Plan AV

Thrifty Drug still pending on this program.

VI. SECTION ACTIVITIESB&H Defense Program

Thirty-two sales territories participated in this program. Excellent reception by retail. This program was a complete success in blunting the Capri effort. If there was a down side, no temporary P.O.S. was provided to gain even more exposure. All incentive items were used.

B&H Inner City BlG1F

Three divisions were involved with this program. All shipments of product and displays were received on schedule for placement, 100% usage of material.

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Virginia Slims Ultra Lights Sampling Program

This program began 8/31, all samplers are on board, 17 people were hired.

Good response by the Sales Force regarding Space Trek.

Many special programs have just concluded:

- Con Sabor A Mexico (Taste of Mexico)
- Mexican-American Independence Day Festival
- Mike Brito Baseball League
- Abraham Lincoln Soccer Tournament
- Marlboro Cup Simulcast and Las Charreada (rodeo)

All these programs helped Philip Morris build visibility in the Hispanic community.

Las Charreadas Marlboro National Championship

September 12th and 13th we operated a sweepstakes booth and sampled. All aspects ran well with excellent on-site visibility. Attendance (approximately 1500-2000) was much lower than promoters had anticipated (8000).

Recommend that PM discontinue participation in the program because of the lack of interest for this sport in the Los Angeles area.

With the promotion of Mike Blanco from Area Manager to Division Manager, all Area Manager accounts have been redeployed. Average assignment is now at 29.5 calls. Mike's position was not filled and his workload was transferred into the other four assignments.

VII. SALES SERVICESFleet

For several years, Section 72 has had a low accident rate, 4 to 5 chargeable per year. During the past couple of years, chargeable have almost tripled. The increase seems to coincide with the change from sedans to van fleet. Many of our people who have never driven a van would automatically assume that they handle the same way. Backing into another vehicle has been the cause of a number of accidents. Would suggest that we develop a training tape to show all sales reps and new hires in particular. Subject tape should include all the aspects of driving a van under a number of normal and adverse conditions.

The Section SMART Desk was finally delivered the week of 9/21. The increased depth of the desk (versus that of the secretaries) really helped to accommodate all of the hardware.

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We are still having problems plotting programs. Communications with the NYO found that our problem was apparently with the "black box". A replacement box is currently on order.

VIII. SALES DEVELOPMENT

N/A

XI. MEDIA

Outdoor advertising and new print media has shown up on Virginia Slims Ultra Lights as per scheduled dates. Billboard ads are well placed and highly visible.

X. ASSOCIATIONS & CONVENTIONS

Attended the Southern California Grocers Dinner on September 16th. Don Kohler, President of Alpha Beta, was honored.

SAM Bern Nilson attended the California Vending Association Convention in Palm Springs, California.

XI. SSM MISCELLANEOUS COMMENTS

We still have not received correspondence regarding results of the Section Audit conducted by NYO in May 1987.

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I. MARKET CONDITIONS

Cambridge Full Flavor continues to gain distribution in all markets. It is estimated that distribution levels on Cambridge Full Flavor have reached 80-85% in independent accounts on both packings. With the unavailability of coupons, the Las Vegas market is reporting significant declines in sales. Overall movement at retail level has been especially good. Cambridge sales in the Albuquerque Price Club have increased. Doral had been selling 6-1 against our Cambridge packing in June, latest reports show the cap has closed to 4-1.

Virginia Slims Ultra Lights - Distribution and sales of Virginia Slims Ultra Lights continue to go very well and both retail and consumer responses have been very positive throughout the section. We anticipate an 85-90% distribution in the independents for both packings. With the exception of: Big Bear Markets in San Diego, pending a 9/30 appointment; and minor chains in Las Vegas, all chains and distributors have accepted both packings. The excellent consumer response seems to be a result of the extensive advertising and 2 for 1 displays.

B&H Lights Box - This brand is receiving an excellent response at the chain/distributor level. At this time almost all accounts contacted have accepted both packings of this brand, one exception being Tri State Wholesale in El Paso, Texas which will be followed up by SSS Kruggel next week. Sales Reps have been pre-booking the brand and results are certainly acceptable, as most retailers will purchase the new B&H packings during the actual retail introduction.

Effective 10/1/87 the Texas state cigarette tax has been raised 55¢ per carton to total \$2.60 per carton. Retailers and wholesalers alike are both negatively affected by the high state tax with tax free cigarettes available from Mexico and through the many military installations in the El Paso area.

II. MAJOR COMPETITIVE DEVELOPMENT

ATC

Malibu is showing an increase in distribution by promoting 2 for 1's and \$3.00 off carton coupons. As a result, movement is showing small but steady improvement. Sales Reps report the product is being purchased by a relatively consistent group of value conscious smokers.

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It has been noted \$3.00 off coupons are attached to the carton at the factory while 30¢ off/pack stickers are attached by Sales Reps. Las Vegas also had BIGIF displays which showed good movement on a temporary basis, however carton movement is slow.

Pall Mall Filters continue to be promoted as previously reported with smoker trial reported to be very good on BIGIF product. Albuquerque Price Club received 20-6M cases of BIGIF product. Displays were authorized at Southland and Circle K. The 40 unit displays were sold out in five days having been purchased mainly by Marlboro, Winston, and Camel Filter smokers. 25 carton floor displays filled with \$2.00 off coupon cartons showed slow movement.

ATC also sent out an interesting flyer to retailers offering a \$4.00 cash bonus for having two cartons of each Pall Mall Filter Kings in stock when their Sales Rep called upon the store.

ATC is meeting with some success with their new plastic Malibu Value Center. We are seeing more and more of these in independents and some chains. While the display is not particularly attractive nor durable it is very narrow (3 wide) and stores easily accommodate it. Capri is featured with other ATC Lucky Value packings.

B&W

B&W Reps in California continue to promote Capri with BIGIF offers. Distribution on the brand is rated good and sales appear to be good even accounting for the affects BIGIF's have on initial trials.

Several retailers have indicated that they feel Virginia Slims smokers may be attracted to Capri although there is no appreciable negative affect on Virginia Slims sales as yet. Other Supervisors report that Capri is still not available in the rest of the section.

Lorillard

Lorillard will be redeploying their Arizona sales force, and rumors indicate they are adding a section office to Phoenix by 10/1/87 and that a female has been promoted to this new position.

Lorillard continues introduction of their new True Packaging. They have done little to promote the new packaging and there appears to be no change in distribution or sales levels.

Malibu is currently featuring 40 unit two pack with lighter displays which have a \$4.00 payment. Retailers report sales are brisk.

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Lorillard couponing affects are mainly directed at Kent (\$2.00) and True (\$1.00) cartons placed on carton fixtures.

L&M

Continue to place \$2.00 off carton coupons on all full priced brands in carton outlets. No special displays are being utilized and since sales are mainly to current smokers, this program becomes more of a reward.

"Total" continues to have limited distribution and has only been seen in Basha's in Arizona.

Scotch Buy cartons in Albuquerque Safeway stores are featuring \$1.00 carton coupons and reports are that sales have been stimulated.

RJR

More Light 120's being featured in 2/1 20-40 unit displays. Due to very little sales support, both More Light 120's and Camel 100's sales have been slow.

Salem 40 unit BIGIF displays featured in Albuquerque to initiate new packaging. Placements were authorized for August and again for September in Circle K, Southland, Total Petroleum and Thriftway Stores. Payment was \$4.50 per placement. Displays sold out in 3-4 days to mainly Salem customers. Retail and consumer comments were positive on new look.

Current Doral on-carton coupons are for 50¢ off. Retailers are reporting regular Sales Reps are now servicing Dorals and only couponing approximately 60% of cartons in stores. In Arizona, couponing has reverted from 50¢ to \$1.00 off coupons due to decreased sales. Cambridge is outselling Doral in many of those accounts with only limited 50¢ off carton coupons on Doral.

As of September 10, 1987, the price of Magna had been raised to full margin from generic. Sales have appears to drop drastically.

"Austin", made by RJR exclusively for K-Mart Stores is reported to be scheduled for delivery to stores in Albuquerque beginning September 27. This will be their house generic. RJR is requiring them to discontinue all other generics but Doral.

Buy 2 packs Winston, get a Charger Cook Cup with a \$2.00 off coupon towards carton purchase. Display intended for beach resort area but placed in high volume accounts inland due to large quantities. Displays hold 20-40 units with rumored \$3.00 payment.

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A Southland store manager in Albuquerque reported that RJR will be placing carton fixtures in stores that will "talk". When consumer removes carton from fixture, an electronic

device will say "thank you," providing an additional security measure. SSS had heard this rumor in Sacramento, but didn't recall that RJR was supplying the fixtures.

Rumored from Sales Rep married to Nabisco employee: There is talk of turning over responsibility for merchandising and spoils of Baby Ruth, Butterfinger and Bonkers to RJR tobacco Sales Reps. They would be provided with paperwork to write up damage reports and write checks to accounts for damages. Again, this is merely "talk" at this point.

We are not seeing any impact from RJR's new adjustable OPM as yet. They appear to be replacing only their fixtures at this time. RJR is reported to offer retailers \$100.00 for ceiling mount installation and we understand that RJR has told retailers that if they remove the RJR OPM they will not be offered any more promotional displays, i.e. BIGIF's, lighter displays, etc.

RJR has been sending out a newsletter to smokers entitled "Choice". It's focus is on current smoking issues and legislation. Other than its full color, glossy design, it is very much like the Tobacco Observer.

RJR may be realigning territories in New Mexico. Sales Rep in Farmington has picked up Grants, NM but no other information available.

III. TRADE CLASSES

Wholesalers and Distributors

Sun Country in Roswell, New Mexico is selling their two wholesale operations in Midland and Amarillo (that were purchased from Ponca last year) to Grocery Supply in Sulphur Springs, Texas effective in November.

Core Mark, Las Vegas - Branch Manager Larry Stewart will be moving to Core Mark's Corona location to work in the sales division. He will be replaced by Roger Havens.

A.M. Lewis, Lake Havasu - A new cash/carry warehouse has been opened. Account is classified but doing low carton volume. Currently overstocked on California tax-stamped product.

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The A.M. Lewis Cash & Carry branches in Las Cruces, NM and Silver City, NM have both been closed. Both of these branches were being supplied by their main warehouse in Phoenix, Arizona. This should have no affect on our business as both branches were very low volume and there are tobacco distributors that service both of these areas.

Skaggs/Alpha Beta, Las Vegas - This account was approved to go on direct 9/14/87; first shipment is expected to arrive during the week of 9/21/87, anticipated volume is 20 cases per week.

Ponca, Phoenix was informed that they have lost Basha's as a secondary source supplier. This will no doubt improve their profit picture.

Supermarkets

Bayless, Phx. (52 stores) - All buyers were fired and re-hired at a lower pay scale over the Labor Day weekend. This is due to a reorganization of finances within this chain. According to newspapers, Bayless is up for sale with executives of the company attempting to buy out the remaining 82% of the business. Also rumored as buyers is Von's, Fry's, Lucky's, and Fleming. The new buyer, Kathy Kennedy, will be purchasing cigarettes effective immediately. In addition, they are presently closing three more stores but will be adding four more stores by the end of 1987.

Safeway, El Paso (59 stores) - Continues to operate as usual following their acquisition by Furrs Supermarkets. Brand authorization, etc. continue to be made at this office.

Smith Food King, Las Vegas - Chain has sold two stores (#363, 375) to J&J Markets. J&J Markets now has four supermarkets and one convenience store. Information given to AM M. Wells for classification as management account.

Furrs, Albuquerque - No changes have been made to date in Safeway stores purchased by Furrs. Twelve Safeway stores were reported to have sold to SuperValu, however SuperValu is not commenting on when this all takes effect.

Convenience/Gas

Southland Distribution Center has been approaching several accounts in Lake Havasu and plan to start distributing once a sufficient customer base is gained.

Southland, Albuquerque - Fourteen Santa Fe, NM stores were sold to an unnamed party. Zone Manager has requested this be kept "confidential".

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Southland is presently restructuring their divisions, dividing their La Mesa, California division into a Las Vegas, Arizona, and San Diego divisions. Presently the La Mesa division has 440 stores. They did indicate the San Diego Region Office would remain open.

Allsups Convenience Stores (300 stores) has approached us to see if we would be interested in paying for the manufacture of a Marlboro metal sign to be placed on bicycle stands in front of their stores. They have also contacted Coca Cola and Pepsi Cola for the same reason. Their idea is to have only one cigarette sign and one soft drink sign. They have not yet advised us of the cost involved or if a monthly payment would be required. Details are still being reviewed by Allsups management.

Circle K - It would be of tremendous help to the Sales Reps if they informed in advance which stores were getting the 'L' shaped carton fixtures. This would enhance their pre-planning and improve the coverage of their territories.

Woody's (10 stores) will be adding three more stores in Northern Arizona by the end of the year.

Hallum (13 stores) will be adding one more store in Winslow, also by the end of the year.

Mass Merchandisers

Target - We have been informed that their headquarters are discontinuing all generic cigarettes except for their own. No changes have been observed as yet, and no further details are available at this time.

IV. SSM KEY ACCOUNT CONTACTS

Stater Bros.

Tom Reingrover

With S.A.M. D. Wilson, presented: V.S. Ultra Lights - accepted with 40 carton plus out and floor display; B&H Lights Box - Accepted with 30 carton plus out; additional 35 PM rows on Plan A - Tom very interested but this will require follow up. We also resigned Plan A for new RJR fixtures at 95 PM rows.

Southland Distribution Center

Barbara Smith

With S.A.M. D. Wilson presented B&H Lights Box and pre-booking orders. This account is generally very cooperative.

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Circle K Rocky Mountain DivisionMike Wilson
Les Blake

With AM Torres, reviewed PM carton fixturing for this division (Colorado, New Mexico, El Paso) and Marlboro permanent display. Circle K communication is very good between each division and Phoenix headquarters and Mike is most anxious for his division to receive placement of new fixtures.

Flaks/PoncaRod Forbess

Reviewed B&H Lights Box details with Rodney. This operation continues to experience considerable out of stocks due to their headquarters attempting to limit inventories.

Lucky MarketsCarl Lunden

With S.A.M. D. Wilson, presented increased PM Plan "A" space on separate fixture and followed up on B&H Lights, V.S. Ultra Lights introductory orders. Carl interested but will require follow up for additional PM rows. He is interested in a value center which we will represent in two weeks.

FlemingSteve Durham

With S.A.M. D. Wilson followed up on code numbers for B&H Lights Box

IV.A. S.A.M. KEY ACCOUNT CONTACTS

Bayless Markets has accepted Virginia Slims Ultra Lights with a 15/15 automatic shipment and one 80-unit BIGIF floor display. Bayless, was pleased with the prototype of the signage to go on the package fixtures. Follow-up with Rick Vaillancourt and D. Wilson on the package fixtures installation will be continuing.

Core Mark accepted the Benson & Hedges Lights Box with a 60-case initial order.

Fleming Companies, Inc. has accepted the Benson & Hedges Lights Box.

Lucky Stores, Inc. - Follow up on the Virginia Slims Ultra Lights and Benson & Hedges Lights Box has been finalized with a 10/10 plus-out to the stores. No displays. D. Wilson presented the Marlboro Floor Display on 9/23/87. This will be looked at by the buying committee soon. She will follow up and represent. She is also going to make a proposal on the value center at her next appointment.

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Owik Korner Deli-Grocery has accepted the Virginia Slims Ultra Lights with a 3/2 plus out, no displays. Benson & Hedges Lights Box was accepted with a 5/5 plus out, no displays. D. Wilson received another 'no' on our value center.

Short Stop, Inc. accepted Benson & Hedges Lights Box with a 5/5 plus out. Mr. Rick Lane has accepted our 8 ft. maxi overhead for his 39 stores. He will let D. Wilson know on 9/25/87 if he wants the Marlboro Shopping Baskets, also.

Smitty accepted the Benson & Hedges Lights Box with a 10/10 plus out, no displays. Mr. Steve Weiskittel was shown the signage prototype for the package fixtures, he really liked it. Rick Vaillancourt will continue to follow up on this with me. Brochures for System 2000 were given the placement of these to the individual stores.

Southland Distribution Center accepted the Benson & Hedges Lights Box.

Stater Bros. accepted the Virginia Slims Ultra Lights with a 20/20 plus out and one BIGIF 80-deal floor display. Benson & Hedges Lights Box were accepted with a 10/10 plus out with no displays. D. Wilson presented the Marlboro Permanent Floor display, this is pending.

7-Eleven accepted the Benson & Hedges Lights Box, sell in is to be on a local basis.

Circle K Western Region/South Pacific Division - Presented Benson & Hedges Lights Box. Both packings accepted. Each store in region to receive a 10 carton plus out each packing and participate in a BIGIF promotion. Also accepted the Virginia Slims three pack Book of Days counter promotion for November.

ABCO - Presented both packings B&H Lights Box. Product accepted, and supplied by Fleming. 10 cartons each packing to be delivered to each store. Presented free standing Marlboro racks as an extension to Plan A, rejected due to space limitations.

Bashas - Presented both packings B&H Lights Box. Accepted with a 10 carton plus out of each packing to all stores. Presented free standing Marlboro rack as an extension to Plan A, rejected due to space limitations. Discussed P.M. spinners in accounts with System 2000 racks. Not interested in P.M. spinners at this time. Will continually follow up.

Circle K Phoenix/Circle K Northern Arizona, Las Vegas - Presented B&H Lights Box. Both packings accepted, with a 10 carton plus out of each packing to all stores. Also will be participating in a B&H Lights Box 40 deal BIGIF in November. Reviewed S.O.M. Reports and P.M. carton fixture

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installations. Discussed the opportunity of Philip Morris sampling activity at Circle K stores during grand openings.

McLane Sunwest - Presented both packings B&H Lights Box, accepted. Processed V.S. U.L. A.D.A. invoice. Also discussed the McLane Sunwest weekly newsletter, which is distributed to 300+ chain headquarters. This could be an excellent opportunity to pre-announce P.M. programs to headquarter accounts. Will advise of developments.

Price Company - Delivered BIGIF check for Virginia Slims Ultra Lights to Jim Altman. Chuck Wenzler accompanied Jerry Booher, who made F.V.B. presentation.

Big Bear - Introduction to account. B&H Lights Box and Virginia Slims Ultra Lights presented - pending.

V. MERCHANDISING PROGRAMS

A. Carton Merchandising Programs

15 high volume independent carton outlets have been resigned more rows under our Plan A. Several of those have been signed at the 160 row maximum. This should help considerably in merchandising our brands and maintaining adequate inventory levels.

With the focus on Space Trek, presentations are being made to increase PM rows through use of 4/7 wide merchandisers. Initial response has been promising. DM Medero reported substantial increases on two resigned Plan A's from 100 to 160 rows each.

The B&H radio and on-carton coupon displays were effectively utilized to sell old B&H packings. The coupons met with the greatest success.

Snappy Marts, Silver City, NM (10 stores) signed our Plan AM contract effective 10/1/87.

All AV contracts will be signed by September 30, 1987.

B. Pack/Counter Displays

Cambridge 2/1 displays have been well received in San Diego area. The tape provided for banding units was much improved in size for each in handling. Buy-back of product was well received by retailers.

Cambridge 2 for 1 Wrap - All Divisions reporting this activity to be extremely time consuming affecting call average, which is down to about 8 calls per day. However, the 2 for 1 wrap did help extensively to sell out the

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remaining excess quantities on the display, most of which were menthol.

The VSUL BIGIF program has successfully launched the new brand. Chain and independent acceptance has been good. The 40 unit displays sold out in 4-5 days, 80 units in 9-10 days. The redemption of the \$2.00 off carton coupons is yet to be seen. Displays did not advertise coupon, and the ad on BIGIF sleeve was not prominent.

We continue to increase our number of BV and BG displays. The BV displays are very helpful in maintaining visibility and availability of Cambridge packs.

B&H Displays - Poor response was received from retailers, due to the poor perceived quality of the incentive (radio). The Divisions will be using the leftovers as trade gifts during the B&H Box introduction. Observed most accounts to be nearly sold out of all the old packings. The \$2.00 off coupons assisted greatly the movement of the old packings.

C. Vending

Status Vending in Las Vegas was approved for direct listing this period.

Canteen Corporation of San Diego has been placed on DataVend effective July 1, 1987. Account has approximately 400 machines.

Service American, Albuquerque has authorized a ride with to place 282 new brands in 105 of their 249 machines. This will increase PM brands from 8.1 to 9.3 brands/machine.

D. P.M. Fixtures

On September 21, Circle K began installing PM L-shaped carton fixtures in Albuquerque stores. Twelve stores should be completed by September 25.

During this period 4 System 2000's were installed in Hallum's four Flagstaff stores. Both the buyer and the owner were extremely pleased with the units. Both commented that it will definitely enhance their sales. With the installation Marlboro now occupies over 50% of the total PM rows in this chain.

Presentations to independent accounts for placement of System 2000 have been quite successful. We have placed System 2000 in 15 independent accounts with another seven accounts agreeing to placement of our fixture.

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Our 6 ft. OPM's are again unavailable and are being backordered. As in the past we will probably lose some locations to RJR due to delays caused by unavailability.

Petro Stopping Center (22 truck stops) has authorized us to replace RJR OPM's in 11 locations. We already have our OPM's in the other locations.

The prototype sign arrived on 9/9/87 and was shown to Tom Brunner of Bayless. The sign was then installed on a test rack in one of the stores and photos were taken and given to Tom for final approval. Follow up on this will be done during the week of 9/28/87 where we anticipate authorization to begin production of the signs.

The prototype was shown to Steve Weiskittel of Smittys on 9/10/87. As with Bayless, initial comments on the sign were that it was a little bit bigger than was expected. However, both were pleased with the sign, and Steve has instructed us to contact John Robricht of Acme Fixtures during the week of 9/28 to test our prototype sign on their prototype pack rack.

Short Stop in Phoenix accepted our overheads for all 39 stores this period, replacing RJR's.

All eight Furr's in New Mexico have the PM 18 module LP Spinner. Store managers are very satisfied with fixtures.

A standard 8' OPM was placed in a Las Vegas area Texaco, but was removed after store manager complained about unit being too low. District Manager, Charles Clark, requested we wait until stores had been remodeled before placing the low profile OPM's designed for their stores. He has also made placement of the M-4 discretionary, based on counter space in each store.

VI. SECTION ACTIVITIES

Sales Reps and Managers continue to prioritize Space Trek program, value brand distribution, and VSUL and B&H Box Lights distribution and programs.

All personnel have been hired and trained for the Virginia Slims Sampling Program. All materials have been received on time.

Division Managers have experienced some minor personnel problems with the VSUL sampling program. Positions have been filled and program appears to be operating smoothly. Sample 6's were received on time but not all sampler outfits have been received.

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Area Managers followed up on the Virginia Slims Ultra Lights brand and B&H Lights Box introductions with the SAM's. The Sales Reps followed up on the Cambridge introduction in retail accounts and Virginia Slims Ultra Lights, as well as pre-booking activities on B&H Lights Box. They also erected related displays, as well as made 3rd quarter draft payments.

During this period Sales Reps have been extremely busy with introduction of Cambridge Full Flavor and Virginia Slims Ultra Lights, resigning of Plan A's, and presentations/placements of System 2000.

P.O.S. materials for the VSUL introduction were attractive and eye catching, and adequate materials were received. Although Jumbo Packs did not come with strings to be used as danglers, Sales Reps used string and paper clips to suspend them from drop ceilings.

Las Vegas division has still not received Multi-Brand pricers or VS Message Center. Cambridge FF carton rack labels have still not been received in field.

We continue to get good use out of the Marlboro floor ashtrays with several chain convenience stores as well as independent accounts requesting them. This item should continue to be available.

MPA T. Pecanic has been in close contact with Jeff Klein of Actmedia to insure product availability in those chains targeted for their program. Of all chains targeted, only Big Bear has yet to approve both products and they have indicated they will accept both based on dropping some of their slower selling products.

VII. SALES SERVICES

Cambridge Full Flavor carton rack labels have not yet been received.

Storage racks for a few vans have still not been received. We have contacted Mercer in the Fleet Department who has advised us that it will take a little more time and so we simply make due with what we have.

VIII. SALES DEVELOPMENT

The pre-booking forms continue to be a good tool in achieving early and rapid distribution on our new brand introductions.

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The sell sheets received for System 2000, spinners, and low profile OPM's will be effective in presenting these fixtures to accounts.

IX. MEDIA DEVELOPMENTS

VSUL advertising in magazines and billboards has been highly visible and effective. Retailers report consumers are requesting brand due to advertisements seen.

Actmedia aisle advertising program with Safeway, Albuquerque has continued on schedule.

X. ASSOCIATIONS/CONVENTIONS/MEETINGS

9/18-9/20, attended the New Mexico Association of Candy & Tobacco Distributors Convention in El Paso, Texas. Attendance was down slightly from last year. This continues to be largely a social gathering with good participation from vendors and distributors throughout New Mexico and El Paso.

9/16 DM H. Medero attended SuperValu Fall Food Fair. It was observed that fair is designed to offer retailers special purchases. RJR participated by demonstrating their carton fixtures and value centers but their booth was not very busy. At this time, the N.M. Food Dealers Association is much more effective in gaining exposure of our merchandisers.

R. Vaillancourt attended a breakfast meeting on 8/31/87 as a guest of Circle K (Ray Cox, Senior Vice President, Gov't. Affairs). The guest speaker was Congressman John Rhodes. Each of those in attendance were allowed to ask two questions of the Congressman. Based on his observation, Congressman Rhodes is opposed to any excise tax, but could possibly agree to vote on the marginal tax. Breakfast meetings like this can be of tremendous help to Philip Morris. Its helps to convey our point of view to the Congressman and helps him to be aware and more cognizant of things that pertain to the tobacco industry. Future meetings are planned and we will be informed as they are developed.

AM L. King attended the CAVC Convention in Palm Desert, California September 17-19. Larry reports excellent interaction between PM and this group. While other tobacco companies were there, RJR, B&W and participation was basically the same as ours and we feel this is a worthwhile event to continue to be involved in.

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XI. SSM MISCELLANEOUS COMMENTS

The state tax per carton in Texas will increase 5.5¢ per pack to 26¢ effective October 1, 1987.

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